

# City of Detroit

## CITY COUNCIL

IRVIN CORLEY, JR.  
DIRECTOR  
(313) 224-1076

FISCAL ANALYSIS DIVISION  
Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 218  
Detroit, Michigan 48226  
FAX: (313) 224-2783  
E-Mail: irvin@cnci.ci.detroit.mi.us

ANNE MARIE LANGAN  
DEPUTY DIRECTOR  
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: February 19, 2010

RE: Prototype General Fund Appropriation Status Report and Ombudsperson Office Concerns

We appreciate the Ombudsperson's staff concern expressed at the Budget, Finance and Audit Standing Committee meeting when the prototype report on general fund appropriations was first discussed and later in a letter to the committee dated February 18, 2010 (Attachment I). The Fiscal Analysis Division will use this opportunity to check the accuracy of the calculations used in preparing the report. I will also discuss the intended use of the report and the assumptions used to prepare the report. Since the Ombudsperson Office staff has expressed their concerns, I will use the Ombudsperson Office as the test case and for example purposes.

### Accuracy of Calculations

The raw data from the financial reporting system as of December 31, 2009 for the Ombudsperson Office:

Budget	Encumbrance	Actual	Funds Available
\$1,384,377.17	\$21,246.45	\$625,658.25	\$737,472.47

Parenthetically, as I mentioned during the Budget, Finance, and Audit Committee meeting, the Ombudsperson's Office appropriation was not in a deficit position as of December 31, 2009, and therefore, was not one of the 23 appropriations that were in deficit status at December 31<sup>st</sup>. However, we indicated that the Ombudsperson's appropriation could be in a deficit position as of June 30, 2010, as 61 other appropriations could be, based on our analysis.

The calculation of the Ombudsperson expenditures to the end of the year using the number of weeks passed in the fiscal year method follows (the method and rationale is explained in the next section of the report):

Actual expenditures through December 31<sup>st</sup>, \$625,658.25, divided by the factor for weeks completed of 49.04%, equal the projected year ending expenditure amount of \$1,275,812.09.

Using this with the remaining assumptions as outlined in the cover letter that was included with the original submission of the prototype report for the Ombudsperson Office follows:

Total Budget	\$1,384,377.17
Less:	
Estimated Year End Expenditures	1,275,812.09
Unfunded Accrued Actuarial Liability Adjustment	94,855.00
All encumbrances will result in expenditures by year end	<u>21,246.45</u>
Potential Projected Deficit	<u>\$ (7,536.37)</u>

Therefore upon review and explanation of the assumptions of the prototype report and the calculations used, the Ombudsperson Office is accurately presented in our report.

### **Assumption Explanations**

The design of the report intends to create a report that can be used at any point during the fiscal year, not just at month end, quarterly or semi-annually. For this reason, the projection for year-ending expenditures uses a factor based on the number of weeks passed in the fiscal year, rather than one based on the number of months completed. This means the factor for December 31<sup>st</sup>, based on weeks was 49.04% of the fiscal year passed, rather than the 50% based on months.

Since payroll costs represent the largest portion of recurring expenses, using the last payroll posted in the system when the data for the report is produced is the recommended method to determine the number of weeks that have passed in the fiscal year.

It is worthy of note here, that while the difference between the weeks verses month assumption does not appear to be that great at only .96% for December 31, 2009 the difference in dollar amount to the end of the fiscal year for the Ombudsperson Office is \$24,495. So, a change in this assumption would change the year ending projected status for the Ombudsperson Office from a deficit to a surplus.

However, manipulating assumptions to make things appear better is not recommended, and for continued regular use the number of weeks completed can be expected to provide better information and will likely capture year end accrued payroll expenditures better.

I would recommend that as the report is developed a conservative approach to assumptions be maintained. It will be much better for the report to identify more, rather than fewer, potential problem appropriations for additional review.

An additional goal is to make the report as accurate as possible, knowing full well that the projections cannot be absolute to any extent. But rather a report that provides, at a high level, analysis of a large number of appropriations that will identify on an exception basis some of the potential problem appropriations, with adequate time to make adjustments to prevent year ending deficits. Any report or analysis at a high level rather than on an individual appropriation basis cannot identify all problems, and has the potential of not identifying some of the problems, but the design concept is to identify as many variances from budget as possible. The goal is to identify appropriations that may require addition review either to prevent a deficit or identify available resources.

As presented, the report contains a high level review of 244 general fund appropriations. The financial reporting system has over 4,800 appropriations defined, and while the prototype report would not be used for all of these appropriations, it does have the potential to be a tool for use in monitoring 1,000 or 1,500 appropriations in the future.

As an added feature, appropriations that are identified as having surpluses, especially large surpluses, can be reviewed to determine if they can be the source of transfers necessary to cover appropriation deficits.

## **Summary**

The calculations used to prepare the report are accurate. While assumptions used to produce this report are always open to review and I encourage discussion of the assumptions, I believe the prototype report is basically sound as presented. It is important for those using any analytical report to understand the assumptions used to produce the report. In fact, understanding the assumptions is as important and in many cases more important than the final projections. This prototype report is not any different in this regard.

As presented the prototype report identifies the Ombudsperson Office as an appropriation that warrants addition review and monitoring as it represents one appropriation that could end the year at or near a deficit. Even modifying the assumptions, while changing the year ending projection from a deficit to a surplus for the Ombudsperson Office, would probably maintain the relative position of the Ombudsman Office as a borderline appropriation, since a change in assumptions will modify the projection for all appropriations.

As a final note, each budget is very independent of any other budget, so the historical result of past budgets, bear little relationship to the current budget and projected results. As various investment services always point out in their advertisements, past experience is not an indication of future performance. This same concept holds true for budgets, year ending appropriation surplus experience in the past does not indicate current or future appropriation surplus potential.

Regular monitoring and review of appropriations between the budget, actual and projected year ending results, not only identifies excessive spending but can also identify

errors in budget preparations, incorrect charges during the year, or a multitude of other situations. The real purpose is to identify where adjustments might be required at the appropriation level, the adjustments can be positive or negative.

The overall goal of the report at this point in its development is to provide Council with a method to monitor the budget on a regular basis and add visibility to potential problems or solution areas at a high level. While any report has limitations I believe the prototype report provides a sound basis on which to build on. The ultimate goal being to allow adjustments to be made during the year increasing the potential for the city to end each fiscal year without adding to the accumulated deficit, but rather reducing it.

Attachment: (1)

cc: Council Divisions  
Auditor General Office  
Ombudsperson Office  
Norman White, CFO/Group Executive  
Thomas Lijana, Finance Director  
Pamela Scales, Budget Director  
Kamau Marable, Mayor's Office

Durene L. Brown  
CITY OF DETROIT  
OFFICE OF THE OMBUDSMAN

COLEMAN A. YOUNG  
MUNICIPAL CENTER  
2 WOODWARD AVE., STE. 114  
DETROIT, MICHIGAN 48226-3415  
PHONE 313•224•6000  
FAX 313•224•1911  
WWW.CI.DETROIT.MI.US

February 18, 2010

Budget, Finance, and Audit Standing Committee  
Honorable Detroit City Council  
1340 CAYMC  
Detroit, MI 48226

**RE: Committee Meeting Discussion on February 17, 2010 – The prototype  
General Fund appropriation status report as of December 31, 2009, with  
Fiscal Year-End Estimates**

Dear Council Members Kenneth V. Cockrel, Jr., Chairperson, Brenda Jones, Vice  
Chairperson, Andre L. Spivey, Member, and Council President Charles Pugh, Ex-Officio:

I have always pointed out the good stewardship of the Office of the Ombudsman in  
managing all allocated resources. As a matter of record, my office has consistently ended  
fiscal years with surpluses lapsing to the General Fund for the past four years, FY 2005-  
2008-09. Cumulatively, the Office of the Ombudsman has returned nearly \$200K to the  
General Fund demonstrating our fiduciary awareness and accountability for taxpayers'  
dollars.

This is the reason why Deputy Ombudsman John Binion addressed you yesterday and  
challenged the accuracy of the 23 appropriations reported as deficit projections by the  
end of the current Fiscal Year. With all due respect, I ask that you delete the Office of the  
Ombudsman from the list as we do not anticipate, nor can we justify any upcoming  
budget deficit. Under my administration, the Office of the Ombudsman is a productive,  
lean machine that provides public service within the constraints of the adopted budget.

Your attention to this matter is appreciated. We do not want this Honorable Body or the  
administration to make a fiscal decision based on misinformation.

Sincerely,

  
Durene L. Brown  
City Ombudsman

CC: Janice M. Winfrey, City Clerk  
Irvin Corley, Fiscal Analysis Director  
John Binion, Deputy Ombudsman